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*[Proposed] Attorneys for Debtor and  
 Debtor in Possession*

*[Proposed] Attorneys for Debtor and  
 Debtor in Possession/Petitions to Practice  
 in Nevada are Pending*

**UNITED STATES BANKRUPTCY COURT  
 FOR THE DISTRICT OF NEVADA**

In re:  
 SPECIALTY TRUST, INC.,  
 Debtor.

Case No. 10-51432-GWZ  
 Chapter 11

In re  
 SPECIALTY ACQUISITION CORP,  
 Debtor.

Case No. 10-51437-GWZ  
 Chapter 11

In re  
 SAC II,  
 Debtor.

Case No. 10-51440-GWZ  
 Chapter 11

1 In re

2 SAC D-1, LLC,

3 Debtor.

Case No. 10-51441-GWZ

Chapter 11

**DECLARATION OF NELLO GONFIANTINI III IN SUPPORT OF THE FOLLOWING: (1) DEBTORS' MOTION FOR ORDER DIRECTING JOINT ADMINISTRATION OF RELATED CHAPTER 11 CASES PURSUANT TO FED. RULE BANKR. P. 1015(b) AND LOCAL RULE 1015(b); (2) MOTION OF SPECIALTY TRUST FOR ORDER LIMITING SCOPE OF NOTICE; AND (3) DEBTORS' MOTION FOR ORDER (A) AUTHORIZING DEBTORS TO UTILIZE CASH COLLATERAL PURSUANT TO 11 U.S.C. § 363 AND (B) SCHEDULING A FINAL HEARING PURSUANT TO BANKRUPTCY RULE 4001**

12 I, Nello Gonfiantini III, declare:

13 1. I am the current chairman and chief executive officer of the above-captioned debtors  
14 and debtors in possession Specialty Trust, Inc., *et al.* (the "Debtors"). Except as otherwise indicated,  
15 the statements made herein are based on my personal knowledge or from my review of the Debtors'  
16 books and records.

17 2. I make this declaration in support of the (1) *Debtors' Motion for Order Directing*  
18 *Joint Administration of Related Chapter 11 Cases Pursuant to Fed. Rule Bankr. P. 1015(b) and*  
19 *Local Rule 1015(b)* (the "Joint Admin Motion"); (2) *Motion of Specialty Trust for Order Limiting*  
20 *Scope of Notice* (the "Motion to Limit Notice"); and (3) *Debtors' Motion for Order (a) Authorizing*  
21 *Debtors to Utilize Cash Collateral Pursuant to 11 U.S.C. § 363 and (b) Scheduling a Final Hearing*  
22 *Pursuant to Bankruptcy Rule 4001* (the "Cash Collateral Motion" and together with the Joint Admin  
23 Motion and the Motion to Limit Notice, the "Motions"). Each capitalized term not otherwise  
24 defined herein shall have the meaning ascribed in each of the applicable Motions.

25 3. Specialty Trust, Inc. ("Specialty Trust") is a privately held mortgage finance  
26 company that acquires and holds, in a tax-advantaged real estate investment trust or REIT structure,  
27 mortgage loans and mezzanine loans secured by property located primarily in Nevada, Arizona and  
28

1 California. I founded Specialty Trust in 1997. Specialty Trust is held by approximately 435  
2 shareholders, most of whom consist primarily of individuals, family trusts, and local businesses'  
3 pension and profit sharing plans. The total capital invested by the shareholders is approximately  
4 \$170 million.<sup>1</sup>

5 4. Loans are generally made at low loan-to-value ratios, usually 50% or less. Most  
6 loans have terms of one to three years. The majority of Specialty Trust's mortgage loan balances are  
7 secured by first deeds of trust on the underlying real property, with the remaining mortgage loan  
8 balances secured by junior liens. Specialty Trust's mortgage loans may be secured by mortgages on  
9 unimproved as well as improved real property and non-income producing as well as income-  
10 producing real property.

11 5. Specialty Trust currently holds loans with a total amount owing from its borrowers of  
12 approximately \$167 million, which loans have a book value of approximately \$121 million.  
13 Specialty Trust also owns outright or through its subsidiaries REO property (property obtained  
14 through foreclosures or similar actions from its loan portfolio) with a current market value of  
15 approximately \$55 million. Approximately 94% of these latter REO properties are held by three  
16 debtor subsidiaries of Specialty Trust, which include Specialty Acquisition Corp., SAC II, and  
17 SAC D-1, LLC.<sup>2</sup> Specialty Acquisition Corp. and SAC II are wholly owned subsidiaries of  
18 Specialty Trust, and SAC D-1, LLC is a wholly owned subsidiary of Specialty Acquisition Corp.

19 6. Specialty Trust works in conjunction with three non-debtor affiliated entities that  
20 provide primary services to Specialty Trust. These entities include Specialty Financial Corp., which  
21 is responsible for Specialty Trust's day-to-day management and operations, Specialty Mortgage  
22 Corp., which originates and services certain of Specialty Trust's real estate loans, and Specialty  
23 Capital, LLC, a registered broker/dealer providing brokerage services to individual and institutional  
24 customers. I hold, directly or indirectly, 100% of the ownership interest in each of these three  
25 entities.

26  
27  
28 <sup>1</sup> I personally own approximately 5.9% of such shares.

<sup>2</sup> Specialty Trust transfers most of the REO properties to its subsidiaries for insurance purposes as well as to maintain compliance with regulations governing REITs.

7. In return for a management fee, Specialty Financial Corp. ("SFC") manages and runs Specialty Trust's day-to-day business operation and funds virtually all of Specialty Trust's overhead (except for one part-time employee), including the retention and payment of the individuals that manage Specialty Trust's business operations, and the payment of the rent and utilities on the building occupied by Specialty Trust. As part of its general management duties, SFC evaluates prospective real estate loans, generates loan originations and manages the loan and asset portfolio of Specialty Trust. This general management arrangement is fairly typical in a REIT structure, and has been in place between Specialty Trust and SFC, or SFC's predecessor,<sup>3</sup> for approximately 12 years.

8. Specialty Trust currently maintains a \$29.25 million term loan (the "Term Loan") which includes three participating commercial banks of which US Bank is the agent bank. The Term Loan is secured by liens in certain qualified real estate and loans. The non-default rate of interest under the Term Loan is the sum of (i) LIBOR plus 3%, plus (ii) 5% per annum of PIK interest.

9. Additionally, Specialty Trust has \$36.9 million outstanding under a secured and collateralized investment note program. This note program contains individual notes (the "Notes") with maturities ranging from 1 month to 10 years and annual interest rates varying from 4.5% to 8.5%. The Notes are comprised of two series of notes issued under two separate indentures, in aggregate amounts outstanding of \$1.46 million (the "Old Notes") and \$35.44 million (the "New Notes"). The Old Notes and the New Notes are secured separately by eligible assets comprised of real estate, loans, and other collateral that are pledged separate from the Term Loan collateral.

10. Specialty Trust also has approximately \$29 million in unsecured subordinated notes (the "Subordinated Notes") maturing on January 30, 2037.

11. The Term Loan is secured by qualified real estate loans and REOs with a current fair market value of \$86.52 million. The approximate \$1.46 million owed to holders of the Old Notes is secured by an REO with a current fair market value of approximately \$6.4 million. The approximate \$35.44 million owed to the holders of the New Notes is secured by real estate loans and REOs with a

<sup>3</sup> Prior to March 31, 2006, Specialty Mortgage Corp., which I also owned, was the entity that managed Specialty Trust's operations.

1 current fair market value of \$59.89 million. The Debtors' secured debt is apparently also secured by  
2 additional qualified assets in the form of stock in subsidiaries. The Debtors are presently  
3 investigating the status and beneficiary of the stock pledge. Debtor subsidiaries Specialty  
4 Acquisition Corp., SAC D-1, LLC, and SAC-II, and non-debtor subsidiaries JFP 1330, LLC, 5th &  
5 Lincoln, LLC, Oak Creek Condominiums, LLC are guarantors of the Term Loan.

6 12. The real estate finance industry has experienced sharp contraction since 2007, when  
7 the national real estate market collapsed. Overall, there have been escalating rates of foreclosures on  
8 properties and many REITs, mortgage finance companies and real estate lenders have been forced to  
9 close operations. All players within Specialty Trust's target regions have largely been affected by  
10 the economic crisis leaving a considerable void in these markets.

11 13. Specialty Trust has experienced a 37.2% decline in the value of its real estate loan  
12 portfolio between December 31, 2008 and December 31, 2009, while its REO portfolio has grown  
13 by 75.7%. It is my belief that the loan portfolio has stabilized and does not expect further material  
14 write downs to the portfolio beyond the year end 2009. Furthermore, Specialty Trust's management  
15 team has identified and is in a position to capitalize on undervalued opportunities derived from the  
16 recent real estate market fallout.

17 14. Despite extensive and long-term negotiations with US Bank, Specialty Trust was not  
18 able to negotiate a restructuring of the US Bank debt that would give it the flexibility and requisite  
19 liquidity it needed to get through the current difficult economic environment. In light of a pending  
20 default under the Term Loan that would have occurred on April 20, 2010, which would give  
21 US Bank the immediate right to sweep all of the Debtors' cash, an event that would put the Debtors  
22 out of business, the Debtors were forced to file these chapter 11 cases. The chapter 11 will give the  
23 Debtors the breathing room to enhance their liquidity by selling certain of their assets, and give them  
24 time to prepare and confirm a plan of reorganization that pays all of their secured debt in full, which  
25 will allow the Debtors to maintain shareholder value.

26 15. The Debtors have an immediate and critical need to use cash collateral in order to  
27 pay wages, management fees and other operating expenses and expenses of administration of the  
28 Cases. The Debtors' access to sufficient use of cash collateral is vital to the Debtors' operating their



1 business (as well as the business of non-Debtors) as a going concern and maximizing the value of  
2 their assets and estates. Without the use of cash collateral, the Debtors cannot continue to operate or  
3 administer the Cases, and the Debtors and their estates would suffer immediate and irreparable harm.

4 16. The Debtors require the use of cash collateral, in accordance with the budget attached  
5 hereto as Exhibit A to continue to fund operations and restructuring expenses in order to preserve the  
6 going concern value of their business and the businesses of their affiliates.

7 17. It is my belief that the use of cash collateral should be permitted because of the  
8 equity cushion that exists in the assets pledged to the Prepetition Secured Lenders. As noted above,  
9 the Term Loan, the Old Notes, and the New Notes are secured by different real estate interests. The  
10 Debtors have obtained recent third-party appraisals of the real estate in which the Debtors have  
11 interests that have been pledged to the Prepetition Secured Lenders, copies of which appraisals have  
12 been provided to the Indenture Trustee and U.S. Bank, as applicable, and are summarized in Exhibit  
13 B hereto.

14 18. The Debtors anticipate continuing operations while restructuring in chapter 11.  
15 Moreover, it is the Debtors' intent to actively market and sell owned real estate during these Cases  
16 and to use the cash generated to make new loans. To this end, 33% of the REO in the portfolio has  
17 been listed with real estate sales professionals and is being actively marketed. In addition, 27% of  
18 the REO portfolio is being assessed by real estate sales professionals with marketing and listing  
19 proposals expected in the next 30 days. The remaining 40% of the REO portfolio is two properties,  
20 one is being held pending resolution of a lawsuit involving previous owner and title company; the  
21 other property is part of a larger master planned community with ongoing negotiations with other  
22 lender/owners to purchase the Debtors' interest. The Debtors have also retained the services of two  
23 nationally recognized loan marketing companies. These two companies have begun the marketing  
24 efforts for two of the more significant loans in the Debtors' portfolio. The remainder of the portfolio  
25 is being assessed and marketing plans will be developed as appropriate.

26 19. With respect to budgeted REO-related expenditures, the Debtors anticipate that  
27 additional expenditures may be required if the Debtors take title to certain resort property collateral  
28 located in Sedona, Arizona during the Budget period. The loan secured by the Sedona property is

1 non-performing, and the Debtors have recorded a notice of default. However, until foreclosure  
2 proceedings are completed, it is unknown what maintenance costs will be required. It is my belief  
3 that a special variance of up to \$250,000 for potential foreclosure and maintenance expenditures  
4 related to the Sedona property is necessary and appropriate.

5 20. The four (4) Debtors are seeking an order that authorizes the joint administrative of  
6 their four related chapter 11 cases. The Debtors, as stated previously, are affiliated entities with  
7 financial affairs and business operations that are closely related. There are approximately five  
8 hundred (500) creditors, equity security holders and other interested parties in the Debtors' chapter  
9 11 cases. Based upon discussions with counsel, I anticipate that numerous notices, applications,  
10 motions, other pleadings, hearings, and orders in these cases will affect all of the Debtors. With four  
11 affiliated debtors, each with its own case docket and approximately five hundred total potential  
12 creditors and interest holders, the failure to administer these cases jointly would result in numerous  
13 duplicative pleadings being filed and served. Such duplication of substantially identical documents  
14 would be extremely burdensome and wasteful of the Debtors' cash as well as that of other interested  
15 parties and would be confusing to parties being served with multiple copies of the same pleadings.  
16 Further, joint administration will also protect parties in interest by ensuring that such parties in  
17 interest in each of the Debtors' respective chapter 11 cases will be apprised of the various matters  
18 before the Court in all of these cases.

19 21. Also, because there are just fewer than five hundred creditors, interest holders and  
20 other parties in interest in the Specialty Trust case alone, service of pleadings filed in that case  
21 should be limited as requested in the Motion to Limit Notice in order to help control the cost and  
22 administrative burden on Specialty Trust. It is my opinion, based upon my knowledge of the  
23 business, that many of the creditors would not be interested in receiving copies of all the Limited  
24 Notice Matters but would find service of all such motions on all parties wasteful.

25  
26 *[Balance of page intentionally blank]*  
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1 I declare under penalty of perjury that the foregoing is true and correct and that this  
2 declaration was executed this 3<sup>rd</sup> day of May, 2010 at Reno, Nevada.

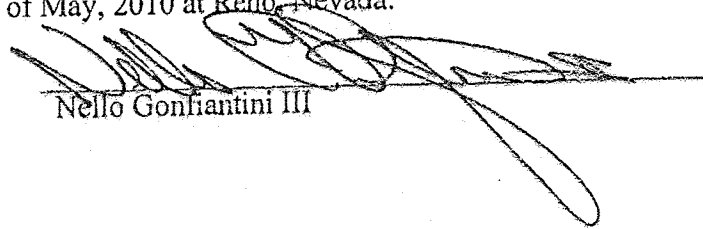
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Exhibit A

**Budget**

PACHULSKI STANG ZIEHL & JONES LLP  
ATTORNEYS AT LAW  
LOS ANGELES, CALIFORNIA

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Exhibit B

**Collateral Valuation Summaries**

PACHULSKI STANG ZIEHL & JONES LLP  
ATTORNEYS AT LAW  
LOS ANGELES, CALIFORNIA

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Deutsche Bank  
Secured Investment Notes

## REOs

Debtor Owner	Development	Real Property Description	Real Property Current Appraised Value	Date of Appraisal	Appraiser	Percent Owned	Book Value of Real Property Collateral (where appraised value is less than face value of the note, 5% deducted from appraised value)
SAC II	Symphony	100 Acres vacant Residential land in Sierra Vista, CA	\$ 1,800,000.00	1/19/2010	NAI Horizon	100%	\$ 1,710,000.00
Specialty Acquisition	Consolidated	54 Partially improved residential lots in Sparks, NV	\$ 2,430,000.00	12/17/2009	J. Campbell, MAI	100%	\$ 2,308,500.00
SAC II and Specialty Trust ***	Duck Creek	113 acres vacant residential land in Stockton, CA	\$ 9,450,000.00	1/7/2010	R. Dozier MAI	100%	\$ 8,977,500.00
SAC II	Coolidge 140	140 acres farm land in Coolidge, AZ	\$ 3,500,000.00	10/29/2009	NAI Horizon	100%	\$ 3,325,000.00
Specialty Acquisition	Cotton Lane	15 acres Commercial zoned in Goodyear, AZ	\$ 1,350,000.00	12/2/2009	NAI Horizon	100%	\$ 1,282,500.00
SAC II	Prime West Jordanelle *	400 acres in master planned community in Park City, UT	\$ 15,350,000.00	2/10/2010	R. Dozier MAI	100%	\$ 12,017,908.83
Specialty Trust	Mohave Vista **	73 acres vacant land zoned recreation in Havasu City, AZ	\$ 1,690,000.00	8/20/2009	LS Appraisal Services	100%	\$ 1,240,478.69
SAC II	2522 Properties	residential undeveloped land entitled for 4 lots	\$ 615,000.00	3/19/2010	M. Frauenthal & Assoc.	100%	\$ 584,250.00
SAC II	Oakcreek Condo LLC	.98 acres unimproved multifamily land in Phoenix, AZ	\$ 3,440,000.00	4/12/2019	R. Dozier MAI	100%	\$ 3,268,000.00
Specialty Acquisition	5th & Lincoln, LLC ****	1.60 acres vacant multifamily land in Phoenix, AZ	\$ 6,400,000.00	4/12/2010	R. Dozier MAI	100%	\$ 6,080,000.00
<b>Total:</b>			\$ 46,035,000.00				\$ 40,794,137.52



\* Prime West Jordanelle book value is the loan amount plus an assessment owed.

\*\* Mohave Vista book value is the loan amount plus accrued interest

\*\*\* Specialty Trust purchased small parcel in the middle of the collateral for the Duck Creek loan to create contiguous project.

\*\*\*\* this asset is pledged as a loan to Deustch Bank for "old indenture".

Deutsche Bank  
Secured Investment Notes

## Pledged Loans

Borrower	Loan Balance	St Participation	Loan Type	Real Property Description	Appraised Value	Date of Appraisal	Appraiser	Senior Encumbrances	lower of appraisal or loan amount (net of senior encumbrances)	Book Value of Loan
Vero Desert Lakes	\$ 7,500,000.00	\$ 7,500,000.00	Mezz	2300 acres undeveloped residential land in Coachella, Ca	\$ 51,450,000.00	12/7/2009	R. Dozier, MAI	\$37,757,500.00	\$ 7,500,000.00	\$ 7,947,145.00
Waterfront Partners LLC	\$ 6,860,000.00	\$ 6,860,000.00	2nd d/t	3.5 acres vacant land zoned mixed use in Downtown, Reno, NV	\$ 18,000,000.00	1/11/2010	J. Campbell, MAI	\$ 4,000,000.00	\$ 6,860,000.00	\$ 6,860,000.00
Nadador, LLC	\$ 5,036,318.00	\$ 5,036,318.00	2nd d/t	32 Home Fractional project in LaQuinta, CA	\$ 23,557,000.00	12/1/2009	R. Dozier, MAI	\$ 14,800,000.00	\$ 5,036,318.00	\$ 2,792,669.00
Nadador, LLC	\$ 5,200,000.00	\$ 5,200,000.00	Mezz	32 Home Fractional project in LaQuinta, CA	\$ 23,557,000.00	12/1/2009	R. Dozier, MAI	\$ 27,146,968.00	\$ -	\$ -
Desert Land LLC	\$ 5,000,000.00	\$ 871,000.00	1st d/t	3.35 acres vacant com'l land in Las Vegas, NV	\$ 60,300,000.00	6/1/2009	The Defederico Group	-	\$ 871,000.00	\$ 871,000.00
	\$ 29,596,318.00	\$ 25,467,318.00			\$ 176,864,000.00			\$ 83,704,468.00	\$ 20,267,318.00	\$ 18,470,814.00



US Bank

## Pledged Loans

Borrower	Loan Balance	ST Participation	Loan Type	Real Property Collateral Description	Appraised Value	Date of Appraisal	Appraiser	Lower of Appraisal or Loan	Book Value of Loan
Ecco Holdings, LLC	\$ 13,800,000.00	\$13,800,000.00	First d/t	640 acres vacant land in Pinal County, AZ	\$ 14,450,000.00	1/20/2010	R.L. Dozier, MAI	\$ 13,800,000.00	\$ 13,800,000.00
Nadador, LLC	\$ 14,800,000.00	\$14,800,000.00	First d/t	32 home fractional project in LaQuinta, CA	\$ 23,577,000.00	12/1/2009	R.L. Dozier, MAI	\$ 14,800,000.00	\$ 14,800,000.00
Joshua Tree FKA NV Acquisitions, LLC	\$ 4,225,000.00	\$ 4,225,000.00	First d/t	10 vacant residential acres in Las Vegas, NV	\$ 3,840,000.00	2/1/2010	Charles E. Jack, MAI	\$ 3,840,000.00	\$ 3,648,000.00
WHM Paloma Inv. LLC	\$ 6,105,000.00	\$ 6,105,000.00	First d/t	855 acres vacant residential land in Gila Bend, AZ	\$ 10,260,000.00	1/15/2010	NAI Horizon	\$ 6,105,000.00	\$ 6,105,000.00
CIC&S LLC	\$ 4,645,000.00	\$ 4,645,000.00	First d/t	54 Unit Apartment in Reno, NV	\$ 3,593,000.00	1/29/2010	J. Campbell, MAI	\$ 3,593,000.00	\$ 3,413,350.00
Desert Quail Air LLC	\$ 20,000,000.00	\$20,000,000.00	First d/t	Vacant Commercial Land in Las Vegas, NV	\$113,420,000.00	6/30/2009	The DiFederico Group	\$ 20,000,000.00	\$ 20,000,000.00
Espananza, LLC	\$ 12,789,459.00	\$12,789,459.00	First d/t	189 acres, finished res. lots, planned lots and com'l in Eloy, AZ	\$ 5,886,000.00	2/8/2010	R.L. Dozier, MAI	\$ 5,886,000.00	\$ 5,591,700.00
Fontana Fitness, LLC	\$ 176,382.52	\$ 176,382.52	First d/t	Com'l condo, Sparks, NV	\$ 204,250.00	12/17/2009	J. Campbell, MAI	\$ 176,382.52	\$ 176,382.52
Fontana Fitness, LLC	\$ 275,547.91	\$ 275,547.91	First d/t	Com'l condo, Sparks, NV	\$ 326,500.00	12/17/2009	J. Campbell, MAI	\$ 275,547.91	\$ 275,547.91
William D. Long	\$ 160,000.00	\$ 160,000.00	First d/t	residential lot in Gardnerville, NV	\$ 325,000.00	12/5/2009	Nancy Milligan	\$ 160,000.00	\$ 160,000.00
Denver 125 LLC	\$ 4,300,000.00	\$ 4,300,000.00	First d/t	72 acres vacant land in Broomfield, CO	\$ 5,580,000.00	1/22/2010	James RE Service	\$ 4,300,000.00	\$ 4,300,000.00
Fontana Fitness, LLC	\$ 290,308.70	\$ 290,308.70	First d/t	Com'l condo, Sparks, NV	\$ 265,000.00	12/17/2009	J. Campbell, MAI	\$ 265,000.00	\$ 290,308.70

Marina Com'l Offices, LLC	\$ 565,354.81	\$ 565,354.81	First d/t	Com'l condo, Sparks, NV	\$ 750,000.00	12/17/2009	J. Campbell, MAI	\$ 565,354.81	\$ 565,354.81
Marina Village, LLC	\$ 3,462,056.00	\$ 3,462,056.00	First d/t	Condo Project in Sparks, NV	\$ 2,510,000.00	12/17/2009	J. Campbell, MAI	\$ 2,510,000.00	\$ 2,384,500.00
Total:	\$85,594,108.94	\$85,594,108.94			\$184,986,750.00			\$76,276,285.24	\$ 75,510,143.94